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USTR FOR BILL JACKSON

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SUBJECT: SCENESETTER FOR DUSTR MARANTIS VISIT TO SOUTH AFRICA JUNE 8-12

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¶1. (SBU) Charge La Lime warmly welcomes the visit of your delegation to South Africa. The Mission stands ready to do everything it can to make your trip a success. You are visiting South Africa at a particularly interesting time, following South Africa's fourth successful democratic election on April 22.

¶2. (SBU) South Africa remains an anchor country in U.S.-Africa policy. The ANC-led South African Government (SAG) has made major progress toward establishing a vibrant democracy and market-based economy since the end of apartheid in 1994. The SAG has focused on political and economic transformation, i.e., reducing the gap between the historically privileged and disadvantaged communities. It has accomplished this primarily by delivering government-provided housing, electricity, and water to the poor, and by creating educational, skills development, employment and business opportunities for the previously disadvantaged.

¶3. (SBU) South Africa continues to face daunting challenges, including a lack of public sector capacity, a thirty percent shortfall in mid-to-upper-level public sector managers, skills shortages in all sectors, infrastructure bottlenecks, income inequality, less than adequate educational opportunities, massive unemployment, entrenched rural and urban poverty, violent and widespread crime, episodes of xenophobic riots, and a severe HIV/AIDS pandemic. These intensify political tensions within the ruling coalition and with other political, civil society, and private sector groups.

¶4. (SBU) South Africa remains the continent's best prospect for establishing a successful democratic society with expanding prosperity despite its many challenges. Approximately 77 percent of registered voters participated in the April 22 national elections, indicating a popular will to build a democratic society. South Africa is a leader of aid-recipient countries in their dialogue with donor nations. It plays a key role in promoting peace and stability in Africa, and is an important voice on international finance, global trade, human rights, conflict resolution, and nonproliferation issues. U.S.-South African relations are stable, as reflected by President Bush's July 2003 visit to South Africa and President Mbeki's June 2005 and December 2006 trips to Washington. ANC President and then-ANC presidential candidate Jacob Zuma visited the U.S. October 19-28, 2008. The most recent high-level visit was U.S. Trade Representative Ron Kirk, who represented President Obama at the inauguration of President Jacob Zuma in May 2009. The

USG shares common objectives with the SAG on the African continent and beyond, and the two governments work closely on many of them.

RECENT POLITICAL CHANGES INCREASE DOMESTIC FOCUS

¶5. (SBU) The ANC dominates the political scene in South Africa but showed signs of internal strife in the last year. The strife led to a lessening of support from the electorate. The ANC won 70 percent of the vote and 279 of 400 seats in the National Assembly in the 2004 election and 66 percent of the national vote in the 2006 municipal elections. In the April 2009 national and provincial election, the ANC won 66 percent of the vote and 264 National Assembly seats, earning the right to govern for the fourth consecutive time since 1994. The opposition, meanwhile, has steadily benefited from ANC turmoil. The Democratic Alliance (DA) is the largest of several small opposition parties in the National Assembly, winning 47 seats in 2004 and 67 seats in 2009. In 2006, the DA joined an opposition coalition to govern the city of Cape Town. There were multiple attempts by the ANC to unseat the DA-led, multi-party coalition, and each unsuccessful attempt increased the local stature of the DA. In 2009, the DA earned 51 percent of the vote in the Western Cape to win an outright governing majority in the province. A new opposition party that broke from the ANC, the Congress of the People (COPE), gained 30 seats in the National Assembly in the 2009 election and is now the third largest national party as well as the official opposition in three of the nine provinces.

¶6. (SBU) Part of why the ANC has faced internal problems

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stems from the fallout of the December 2007 ANC congress in Polokwane, Limpopo. Zuma defeated incumbent Mbeki by a vote of 2,329 to 1,505 for the party presidency. Zuma's allies swept the other top five ANC positions. The Zuma camp dominated the elections for the ANC's 86-member National Executive Council (NEC) with sixteen Mbeki Cabinet members (out of 28) losing their NEC seats. Zuma's victory positioned him to be the front-runner to become national President following the 2009 election. The tense debate at the party's December 2007 ANC National Conference and defeat of incumbent Mbeki reflected the growing impatience with the pace of socio-economic change. It was also in large part a reflection of the growing restlessness and dissatisfaction with the ANC's inability to deliver a better life for everyone. Zuma's subsequent court challenge to his 2007 indictment on corruption and fraud charges formed the pretext for the ANC decision to recall Mbeki as President in September 2008 before his five-year term expired. In April 2009, the National Prosecution Authority dropped all charges against Zuma, alleging official state interference in the proceedings, relieving him of this taint in the last month of the campaign for the 2009 election.

¶7. (SBU) It is too soon to tell whether the results of the 2009 election will lead to changes in SAG policy. Interim president Kgalema Motlanthe's seven month tenure ended with the May 2009 inauguration of Zuma, and the newly appointed Cabinet is only weeks old. Zuma has stressed that as president he will not make radical policy changes and that he respects the party's previous policy consensus. His Cabinet selections, particularly the re-appointment of former Health Minister Barbara Hogan as Minister of Public Enterprises and former Finance Minister Trevor Manuel as Minister of Planning in the Presidency, show that the ANC wants to improve policy implementation in certain areas without drastic overhauls. Despite such signals, many of the new Cabinet appointments -- and some of Zuma's strongest coalition supporters -- come from the left wing of South African politics. The Congress of South African Trade Unions (COSATU) and the South African

Communist Party (SACP) are members of the ANC-led tripartite alliance. These groups are pressuring Zuma to embrace more leftist or perhaps even populist positions in the interests of the working-class poor, and they supported the appointment of many of their members to the Cabinet. On issues like HIV/AIDS and Zimbabwe, this could lead to SAG policies more closely in line with U.S. interests. However, on other issues -- like fiscal management, nationalization of industry/resource sectors, and trade liberalization -- the shifts in policy might be less positive from a U.S. perspective. It seems likely that the new ANC leaders will be more focused on domestic rather than continental or global issues, which could reduce the SAG's activist role in international affairs.

FOREIGN POLICY PROMOTING AFRICAN INTERESTS

¶8. (U) South Africa under Mbeki took a high-profile role promoting Africa's interests and he was successful in getting the African agenda on a host of multilateral agendas, including the G-20. South Africa served as the first chair of the African Union until July 2003 and helped establish continental institutions such as the Pan-African Parliament (which sits in South Africa) and the AU Peace and Security Council. Mbeki was the driving force behind the New Partnership for Africa's Development (NEPAD), an African-developed program based on international best practices and continental peer review to strengthen economic and political governance across the continent. NEPAD is also a framework for African partnerships with the international community. These initiatives are still early in their evolution and have not yet become effective mechanisms for development.

¶9. (SBU) South Africa under Mbeki believed it had a responsibility to lead African conflict resolution efforts and participate in peace support operations by virtue of its history and regional political, economic, and military clout. South Africa plays a lead role in conflict resolution in Burundi and contributes troops to UN Peace Keeping missions in the Democratic Republic of Congo (DRC), Burundi, and Sudan. South Africa has approximately 3,000 personnel

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deployed in peace support operations in Africa and the U.S. has a strong interest in helping South Africa expand and enhance its peacekeeping and disaster assistance capabilities. South Africa participates in the U.S. African Contingency Operations Training and Assistance program (ACOTA) to enhance the South African National Defense Force's (SANDF) capacity to participate in multilateral peace support operations. The U.S. uses International Military Education and Training (IMET) funds to support professional military education and technical training of future military leaders. The January 2008 repeal of the American Servicemen's Protection Act (ASPA) prohibitions on provision of military assistance will permit the resumption of Foreign Military Financing (FMF) programs supporting the South African Air Force's C-130 fleet this is used to support South African troops deployed in the DRC, Sudan, and Burundi. The first tranche of new FMF funding is expected to be available in FY2010. South African officials have been openly critical of U.S. Africa Command in the past and still refuse to meet with Africa Command officials, but the Embassy has been making progress in engaging with the SAG on this issue and continues to engage in a wide range of military-to-military activities. Last year the U.S. completed the first visit by a U.S. Navy aircraft carrier to South Africa since 1967. This marked a turning point in military-to-military relations.

¶10. (SBU) Zimbabwe remains a continuing challenge for South Africa. SADC leaders appointed Mbeki in March 2007 as the

mediator between Zimbabwean President Robert Mugabe and the opposition Movement for Democratic Change (MDC), with the goal of leveling the electoral field before the March 2008 elections. Negotiations made some progress, but human rights abuses against the opposition accelerated. The MDC won a small majority of seats in the Parliament. MDC leader Morgan Tsvangirai won a plurality of the vote (47 percent) but not enough to avoid a presidential runoff in the March 2008 elections. Presidential runoff elections planned for June 27, 2008 were preceded by a campaign of state-sponsored violence and intimidation that undermined the atmosphere for a fair electoral contest. Tsvangirai dropped out of the race on June 22 as a result of the political instability and the violence against MDC supporters. A September 2008 SADC-brokered power-sharing agreement was reconfigured as a power-sharing unity government and implemented in February 2009. The SAG and SADC asked former Mbeki to stay on in his role as SADC's chief Zimbabwe negotiator following his departure from office.

¶11. (SBU) Overall U.S.-South African relations are positive, but South Africa sometimes takes positions on global issues that run counter to U.S. interests. As a recent non-permanent, UN Security Council member, and former chair of the G-77 and the Non-Aligned Movement (NAM), South Africa advocates for a greater voice for the "South" relative to the "North" in an expanded and reformed UN Security Council, in the governance of international financial institutions, increased development assistance, and lower trade barriers (for manufactured and agricultural exports to developed countries).

THE NEED TO ACCELERATE GROWTH IN A SLOWING GLOBAL ECONOMY
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¶12. (SBU) South Africa is a middle-income, emerging market economy with purchasing power parity GNI per capita of \$3,206 (2008), akin to Chile, Malaysia, or Thailand. The SAG has pursued prudent monetary and fiscal policies, which turned a fiscal deficit of 6 percent of GDP in 1994-05 to a small surplus of 0.9 percent of GDP in 2007-08. However, the government announced in February 2009 a fiscal deficit of 3.9 percent of GDP for 2009-10, citing the need for stimulus in the face of a deteriorating economic environment. The South African Reserve Bank (SARB) is independent. It targets an inflation rate of 3-6 percent, but is currently struggling with inflation of about 8.5 percent. Inflation is expected to fall within the target band before the end of 2009, which gives SARB space to cut interest rates further in response to the global economic crisis. Real GDP growth averaged 5 percent per year between 2005 and 2007, but fell to 3.1 percent in 2008 because of higher interest rates, power shortages and weakening commodities prices. GDP contracted 6.4 percent in the first quarter of 2009, owing to slumps in commodity prices and manufactured exports. South Africa is

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now in official recession, and analysts forecast negative growth of about 1.0 percent in 2009.

¶13. (SBU) South Africa's financial system has not been directly affected by recent turmoil in global financial markets. The local banking system is well-capitalized and strictly-regulated, and banks and other financial institutions have relatively little exposure to sub-prime debt or other contagion. Banks raise most of their capital domestically. However, South Africa depends on portfolio inflows to finance its large current account deficit (about 8 percent of GDP). The global "flight to safety" in the second half of 2008 took a heavy toll on the Johannesburg Stock Exchange and the rand. The rand has strengthened in recent months as a semblance of confidence has returned to global markets.

¶14. (SBU) South Africa's single greatest economic challenge is to accelerate growth in a slowing global economy in order to address widespread unemployment and reduce poverty. The official unemployment rate, currently 23.5 percent, is significantly higher among black South Africans than among whites. Income inequality between haves and have-nots remains one of the highest rates in the world. Fifty-six percent of black South Africans, but only four percent of whites, live in poverty. The lack of capacity and service delivery at the provincial and municipal levels fueled the recent xenophobic attacks on refugees from neighboring countries as South Africans from lower socioeconomic strata feared that jobs, houses, and other services were being given to non-South Africans. Nearly 2.5 million low-cost homes have been built to provide shelter to 7.6 million people, 3.5 million homes have been provided with electricity, and nine million people have been connected to clean water. Almost 13.4 million people were benefiting from social grants in 2008 and this figure is projected to increase to 20 million in the next several years as benefits are extended to broader categories of recipients. The SAG's broad-based Black Economic Empowerment (BEE) program provides ownership and employment opportunities to blacks and has helped the black middle class double in size to an estimated two million since ¶1994.

¶15. (U) The success in preparing for and carrying off the FIFA 2010 Soccer World Cup to be held in South Africa in mid-June 2010 is regarded by many as a bellwether of the country's commitment to continued progress in a variety of social and economic areas, among these being the fight against crime, providing services, expanding and improving infrastructure, and developing tourism.

THE RECENT GROWTH OF U.S.-S.A. TRADE AND INVESTMENT

¶16. (SBU) The U.S. is South Africa's third-largest trading partner, after Germany and China. U.S.-South Africa trade grew 12 percent in 2008, totaling \$16.1 billion. U.S. exports rose 18 percent to \$6.2 billion, while South African exports to the United States increased 9 percent to \$9.9 billion. South Africa was the third largest beneficiary of total exports (after Nigeria and Angola) and the largest beneficiary of non-oil exports under the African Growth and Opportunity Act (AGOA) in 2008. The U.S. was South Africa's largest export market in 2007 and an impressive 98.1 percent of South Africa's exports entered the U.S. with zero import duties in 2007 as a result of normal trading relations (NTR), GSP, AGOA and other benefits. Japan displaced the U.S. as South Africa's largest export market in 2008.

¶17. (SBU) Over 600 U.S. firms have a presence in South Africa, with 85 percent using the country as a regional center. South Africa's stable government, sound fiscal and monetary policies, transportation infrastructure, sophisticated financial sector, and, by African standards, large market are the primary attractions for U.S. businesses. Nevertheless, South Africa has failed to attract a proportionate share of global foreign direct investment since ¶1994. Reasons include a volatile exchange rate, distance from developed country markets, high unit labor costs, strong unions, skills shortages, crime, HIV/AIDS, regulatory uncertainty, and the impact of Black Economic Empowerment policies such as the mandatory sale of equity to previously disadvantaged persons, many of whom are connected to the ANC.

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The U.S. was the largest portfolio investor and the second largest foreign direct investor in South Africa after the U.K. (\$6.6 billion at year-end 2007). General Motors, Ford, and Timken are among the top industrial investors in South Africa. Teletch recently opened a large call center in Cape Town and has plans to open smaller centers in other parts of

the country. Westinghouse is competing for a \$60 billion dollar contract to build a fleet of AP1000 nuclear reactors in the Western and Eastern Cape provinces. Lockheed recently signed a contract with state-owned aviation manufacturer and services provider Denel for Denel to open a licensed service center to repair, maintain and overhaul Lockheed C-130s from Africa and the Middle East.

¶18. (SBU) The U.S. and the Southern African Customs Union (SACU: South Africa, Botswana, Lesotho, Namibia, and Swaziland) suspended free trade agreement negotiations after three years and six rounds of negotiations in April 2006. Negotiators agreed to pursue a Trade, Investment and Development Cooperative Agreement (TIDCA) in an effort to preserve some of the progress made in the FTA talks. A framework agreement for the TIDCA was signed at the AGOA Summit in Washington on July 14, 2008. South Africa has recently expressed interest in stepping up the pace on TIDCA, and negotiators may begin work soon on agreements to promote private sector contacts and reduce existing barriers to bilateral trade. There may be movement on TIDCA in the run-up to the AGOA Summit in August.

ONGOING U.S. SUPPORT FOR SOUTH AFRICA

¶19. (U) The USG has contributed approximately \$1.9 billion toward South Africa's development, including \$250 million in credit guarantees, since 1994, and \$100 million in education, \$120 million in economic growth, and \$88 million in democracy and governance since 1998. Our current development assistance program focuses on: supporting South Africa's response to HIV/AIDS and TB through the U.S. President's Emergency Plan for AIDS Relief (PEPFAR); addressing unemployment through financing and business development services for SMEs, job-skills training and education; reducing gender-based violence as part of the President's Women's Justice and Empowerment Initiative (WJEI); enhancing the quality of education through teacher training; and partnering with the SAG in third countries engaged in post-conflict rebuilding. South African NGOs have also received Trafficking in Persons (TIP) grants over the past few years to assist in the global fight against trafficking in persons. A wide range of U.S. private foundations and NGOs are also at work in South Africa. Among them are the Gates Foundation (HIV/AIDS), the Ford Foundation (higher education), the Rockefeller Foundation (adult education), and the Clinton Foundation (HIV/AIDS and Climate Change).

¶20. (U) Twenty-eight U.S. government entities are represented at the U.S. Mission in South Africa (Embassy Pretoria and the three Consulates in Johannesburg, Cape Town and Durban). The Mission has 292 Direct Hire (USDH) positions and 608 local employees. More than 40 percent of Mission staff provides regional services to other U.S. embassies in Africa.

HIV/AIDS AND RELATED ILLNESSES CONSTITUTE A GROWING CRISIS
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¶21. (U) The PEPFAR program in South Africa is the largest recipient of PEPFAR resources to date, having received a total of \$1.45 billion, including \$591 million in FY2008. South Africa has the largest number of HIV-infected citizens in the world. HIV/AIDS-related illnesses, particularly due to HIV/tuberculosis (TB) co-infection, are the country's leading cause of death. Despite South Africa's overall wealth, life expectancy at birth has decreased from 67 to 52, the regional average, due to HIV/AIDS and HIV/TB co-infection. Under-five mortality, with the Millennium Development Goal (MDG) of 24 per 1,000 in 2015, has increased from 60 to 67 per 1,000 between 1990 and 2006. Achieving the MDGs is the SAG's highest priority, but South Africa is moving further away from these goals in both child and maternal mortality as a result of HIV/AIDS.

¶22. (U) An estimated 5.4 million South Africans are HIV-positive including 2.7 million women and about 300,000 children 14 years old or less. An estimated 18.8 percent of adults between 15 and 49 are HIV-infected and women in the age group of 25-29, the most seriously affected, have prevalence rates of up to 40 percent in some areas. An estimated 530,000 new infections occur annually. In 2006, 350,000 adults and children died from AIDS; an estimated 1.8 million deaths have occurred since the start of the epidemic; and 71 percent of all deaths in 15 to 41-year-olds are due to AIDS. In the last few years, there is an indication that prevalence may be starting to decline. Prevalence in antenatal care fell from 29 percent in 2005 to 28 percent in ¶2008. At least 1.6 million children, approximately 10 percent of South Africa's youth, have had at least one parent die and 66 percent of these have been orphaned by AIDS. Continuing AIDS-related mortality will create millions of new orphans and generate additional social and economic disruption, in part due to orphans being raised by extended families or in child-headed households.

¶23. (U) The epidemics of HIV and TB are interlinked. TB is the most common infectious disease in sub-Saharan Africa and approximately 50 percent of HIV patients in South Africa also have TB. A high overall prevalence rate of HIV, HIV/TB co-infection, and lack of continuity in treatment contribute to the increasing incidence of active TB, including multi- and extensive-drug-resistant TB strains (MDR- and XDR-TB). The piloting of an SAG-approved rapid test for MDR-TB may allow more rapid identification and initiation of appropriate treatment, but staff shortages and skills challenges impede an effective response to TB. Failure to adequately control and treat TB may undo all the gains South Africa has made in HIV care and treatment thus far.

¶24. (U) The South African National Strategic Plan for HIV & AIDS and Sexually Transmitted Infections 2007-2011 (NSP) provides a road map for responding to this crisis and sets out goals of reducing new HIV infections by 50 percent by 2011 and increasing access to anti-retroviral treatment (ART). The appointment of Hogan as Health Minister under Motlanthe signaled new initiatives in health, particularly pertaining to HIV and TB. Hogan was outspoken in affirming the link between HIV and AIDS and galvanized support from government and non-governmental organizations (NGOs) to reach the NSP targets. The South African public health system has a need for: expanded clinical and laboratory facilities; strengthened health care infrastructure, particularly for chronic disease, which includes HIV and TB; increased coverage of HIV treatment; HIV prevention; and TB control and treatment. The country has made impressive progress towards expanding access to ART, but the current number of people on ART is less than 30 percent of those who need it. The number of new infections also greatly exceeds the number of new people placed on ART.

¶25. (U) The U.S. President's Emergency Plan for AIDS Relief (PEPFAR) is in its fifth year of implementation and has recently been re-authorized for a second five-year period. PEPFAR is implemented in South Africa by five USG agencies: the U.S. Agency for International Development (USAID); the U.S. Department of Health and Human Services (HHS), which includes the Centers for Disease Control and Prevention (CDC); the U.S. Department of State; the U.S. Department of Defense; and the Peace Corps. PEPFAR and its implementing agencies work with the public and private sector to deliver programs for HIV prevention, care, and treatment. In doing this, PEPFAR and its implementing agencies align their goals with that of the NSP. PEPFAR directly supported 305,356 people on ART through programs in all nine provinces as of March 2008. The South African military has expanded HIV prevention, care, and treatment programs with PEPFAR funding,

and collaborates with the U.S. military and the National Institutes of Health (NIH) on HIV/AIDS and TB research.

¶26. (U) South Africa has the strongest research and training capacity of any country in the region, making it an important partner in HIV/AIDS and TB efforts. USG agencies work with national and provincial health departments, the South Africa military, universities, and NGOs to strengthen primary health care, disease surveillance, and research. NIH provides approximately \$300 million in funding to South African researchers per year, with 90 percent of this focused on HIV/AIDS and TB research. The

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U.S. Mission has prepared a five-year strategic plan in coordination with the SAG for HIV prevention, care, and treatment for not only adults, but also for orphans and other vulnerable children (OVCs). The USG team will work with the SAG to develop a Partnership Compact outlining a joint five-year strategy on mutual financial, operational, and programmatic commitments. South Africa is moving into a transition phase with an expected 75 percent budget reduction in PEPFAR funding during the next three years (from \$591 million in FY2008 to \$150 million in FY2011. This reduction will correspond with increased emphasis on technical assistance and human capacity development coupled with greater funding and program implementation by the SAG. Although Hogan did not retain the Health portfolio, Post expects to work cooperatively with new Health Minister Aaron Motsoaledi on the development and implementation of this five-year strategy and collaboration.

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